

PERAC AUDIT REPORT



Saugus Contributory Retirement System

JAN. 1, 2004 - DEC. 31, 2006



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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JOSEPH E. CONNARTON, *Executive Director*

July 10, 2007

The Public Employee Retirement Administration Commission has completed an examination of the Saugus Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2004 to December 31, 2006. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission, in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission, with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners James Ryan and James Sweeney who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesies and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



EXPLANATION OF FINDINGS AND RECOMMENDATIONS

I. **Regular Compensation:**

There are several Collective Bargaining Agreements in the governmental units that include clothing allowance payments for employees. Retirement deductions are not withheld on these payments. These are regular, recurring payments, which should be classified as regular earnings for retirement purposes.

Recommendation: Clothing allowances must be considered regular compensation pursuant to 840 CMR 15.03(1)(a) which states in part:

“(a) To be considered regular compensation, any compensation to an employee must: ...

3. be ordinary, normal, recurring, repeated...

4. be made pursuant to an official written policy of the employer or to a collective bargaining agreement...”

The Board must formally instruct the payroll officers to begin withholding retirement deductions on clothing allowances paid to members. The rate of deduction must be the same as the member's other compensation, plus the additional 2% if total regular compensation exceeds \$30,000 on an annualized basis for any pay period.

Board Response:

The Board has issued a letter to the Town Manager, Town Accountant, and Payroll Clerk to start effective July 1, 2007 to take retirement deductions from these payments, as they should be considered as regular compensation.

2. **Membership:**

A. There are members that left employment with the government units, and left their Annuity Savings balance with the System. These members returned to the government unit in different positions, which do not meet minimum hours for membership, and no deductions are being collected and no additional service is being credited. These returning members should be contributing retirement deductions and earning pro-rated creditable service, as they remain members.

B. Teachers' aides and cafeteria workers that are employed as 10 month employees and accept summer positions are not required to contribute retirement deductions for the summer positions. Retirement deductions should be taken for the members' summer positions.

Recommendation:

A. The Board must comply with G.L. c. 32, § 3 (6) b which reads “Any member inactive whose service has been terminated otherwise than by retirement but whose membership has been retained by failure to withdraw his accumulated total deductions, shall become a member in service upon his reinstatement to or re-entry into the active service of his former employer in a position which is subject to the provisions of sections one to twenty-eight inclusive.”

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

B. The teachers' aides and cafeteria workers employed in summer positions are active full-time members, and should contribute retirement deductions and accrue creditable service for the additional summer regular compensation.

Board Response:

A letter was sent to the Town Manager, Town Accountant, and both the Town Payroll Clerk and the School Payroll clerk explaining the circumstances and asking them to comply with deducting retirement as of July 1, 2007.

FINAL DETERMINATION:

PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.

STATEMENT OF LEDGER ASSETS AND LIABILITIES

AS OF DECEMBER 31,			
	2006	2005	2004
Net Assets Available For Benefits:			
Cash	\$218,695	\$34,469	\$624,933
PRIT Cash Fund	101,397	25,665	100,490
PRIT Core Fund	58,690,079	51,881,929	45,342,499
Accounts Receivable	2,834,482	1,995,983	2,537,909
Accounts Payable	(79,223)	(101,002)	(94,727)
Total	<u>\$61,765,431</u>	<u>\$53,837,044</u>	<u>\$48,511,104</u>
Fund Balances:			
Annuity Savings Fund	\$11,885,496	\$10,897,388	\$10,257,557
Annuity Reserve Fund	4,532,203	4,697,956	4,762,283
Pension Fund	(530,799)	385,971	983,707
Military Service Fund	4,646	4,619	2,355
Expense Fund	0	0	0
Pension Reserve Fund	45,873,885	37,851,111	32,505,202
Total	<u>\$61,765,431</u>	<u>\$53,837,044</u>	<u>\$48,511,104</u>

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2004)	\$9,820,221	\$4,468,090	\$1,095,320	\$2,341	\$0	\$27,146,989	\$42,532,961
Receipts	1,325,907	134,704	4,330,357	14	238,368	5,358,213	11,387,562
Inter Fund Transfers	(735,979)	735,979	0	0	0	0	0
	(152,593)	(576,490)	(4,441,970)	0	(238,368)	0	(5,409,420)
Disbursements							
Ending Balance (2004)	10,257,557	4,762,283	983,707	2,355	0	32,505,202	48,511,104
Receipts	1,305,271	138,097	4,093,190	2,264	344,850	5,345,909	11,229,581
Inter Fund Transfers	(406,621)	406,621	0	0	0	0	0
	(258,819)	(609,045)	(4,690,927)	0	(344,850)	0	(5,903,641)
Disbursements							
Ending Balance (2005)	10,897,388	4,697,956	385,970	4,619	0	37,851,111	53,837,044
Receipts	1,475,975	136,252	4,074,907	28	410,428	8,022,774	14,120,364
Inter Fund Transfers	(338,020)	338,020	0	0	0	0	0
	(149,847)	(640,024)	(4,991,677)	0	(410,428)	0	(6,191,978)
Disbursements							
Ending Balance (2006)	<u>\$11,885,496</u>	<u>\$4,532,203</u>	<u>(\$530,800)</u>	<u>\$4,646</u>	<u>\$0</u>	<u>\$45,873,885</u>	<u>\$61,765,431</u>

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2006	2005	2004
Annuity Savings Fund:			
Members Deductions	\$1,263,241	\$1,115,310	\$1,075,933
Transfers from Other Systems	71,487	36,958	93,346
Member Make Up Payments and Re-deposits	36,260	38,900	52,293
Member Payments from Rollovers	40,956	54,330	48,255
Investment Income Credited to Member Accounts	<u>64,030</u>	<u>59,774</u>	<u>56,080</u>
Sub Total	<u>1,475,975</u>	<u>1,305,271</u>	<u>1,325,907</u>
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	<u>136,252</u>	<u>138,097</u>	<u>134,704</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems	148,867	148,217	148,257
Received from Commonwealth for COLA and Survivor Benefits	218,637	373,423	119,065
Pension Fund Appropriation	<u>3,707,403</u>	<u>3,571,550</u>	<u>4,063,036</u>
Sub Total	<u>4,074,907</u>	<u>4,093,190</u>	<u>4,330,357</u>
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	0	2,250	0
Investment Income Credited to the Military Service Fund	<u>28</u>	<u>14</u>	<u>14</u>
Sub Total	<u>28</u>	<u>2,264</u>	<u>14</u>
Expense Fund:			
Expense Fund Appropriation	0	0	0
Investment Income Credited to the Expense Fund	<u>410,428</u>	<u>344,850</u>	<u>238,368</u>
Sub Total	<u>410,428</u>	<u>344,850</u>	<u>238,368</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	0	0	0
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	657	991	2,739
Miscellaneous Income	(54)	0	5,231
Excess Investment Income	<u>8,022,172</u>	<u>5,344,918</u>	<u>5,350,242</u>
Sub Total	<u>8,022,774</u>	<u>5,345,909</u>	<u>5,358,213</u>
Total Receipts	<u>\$14,120,364</u>	<u>\$11,229,581</u>	<u>\$11,387,562</u>

STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2006	2005	2004
Annuity Savings Fund:			
Refunds to Members	\$40,933	\$68,525	\$38,875
Transfers to Other Systems	<u>108,915</u>	<u>190,294</u>	<u>113,718</u>
Sub Total	<u>149,847</u>	<u>258,819</u>	<u>152,593</u>
Annuity Reserve Fund:			
Annuities Paid	640,024	609,045	576,490
Option B Refunds	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>640,024</u>	<u>609,045</u>	<u>576,490</u>
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	3,050,305	2,902,970	2,765,455
Survivorship Payments	154,747	152,190	135,235
Ordinary Disability Payments	57,304	54,058	34,672
Accidental Disability Payments	1,132,159	998,825	919,809
Accidental Death Payments	487,305	452,988	454,730
Section 101 Benefits	30,644	28,894	27,638
3 (8) (c) Reimbursements to Other Systems	79,214	101,002	104,431
State Reimbursable COLA's Paid	0	0	0
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>4,991,677</u>	<u>4,690,927</u>	<u>4,441,970</u>
Military Service Fund:			
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:			
Board Member Stipend	0	0	0
Salaries	49,890	47,100	46,560
Legal Expenses	9,762	15,069	2,538
Medical Expenses	0	0	20
Travel Expenses	0	1,371	175
Administrative Expenses	17,386	2,315	2,484
Furniture and Equipment	1,542	1,382	1,031
Management Fees	320,390	263,392	174,472
Service Contracts	8,850	11,279	7,735
Fiduciary Insurance	2,608	2,942	3,353
Sub Total	<u>410,428</u>	<u>344,850</u>	<u>238,368</u>
Total Disbursements	<u>\$6,191,978</u>	<u>\$5,903,641</u>	<u>\$5,409,420</u>

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2006	2005	2004
Investment Income Received From:			
Cash	\$0	\$0	\$0
Short Term Investments	0	0	0
Fixed Income	0	0	0
Equities	0	0	0
Pooled or Mutual Funds	1,860,504	1,575,503	1,420,982
Commission Recapture	0	0	0
Total Investment Income	<u>1,860,504</u>	<u>1,575,503</u>	<u>1,420,982</u>
Plus:			
Realized Gains	3,760,217	2,952,909	2,792,886
Unrealized Gains	5,087,063	4,939,997	3,908,684
Interest Due and Accrued on Fixed Income Securities - Current Year	0	0	0
Sub Total	<u>8,847,280</u>	<u>7,892,905</u>	<u>6,701,570</u>
Less:			
Paid Accrued Interest on Fixed Income Securities	0	0	0
Realized Loss	0	0	0
Unrealized Loss	(2,074,875)	(3,580,755)	(2,343,143)
Interest Due and Accrued on Fixed Income Securities - Prior Year	0	0	0
Sub Total	<u>(2,074,875)</u>	<u>(3,580,755)</u>	<u>(2,343,143)</u>
Net Investment Income	<u>8,632,909</u>	<u>5,887,653</u>	<u>5,779,408</u>
Income Required:			
Annuity Savings Fund	64,030	59,774	56,080
Annuity Reserve Fund	136,252	138,097	134,704
Military Service Fund	28	14	14
Expense Fund	<u>410,428</u>	<u>344,850</u>	<u>238,368</u>
Total Income Required	<u>610,738</u>	<u>542,735</u>	<u>429,166</u>
Net Investment Income	<u>8,632,909</u>	<u>5,887,653</u>	<u>5,779,408</u>
Less: Total Income Required	<u>610,738</u>	<u>542,735</u>	<u>429,166</u>
Excess Income To The Pension Reserve Fund	<u>\$8,022,172</u>	<u>\$5,344,918</u>	<u>\$5,350,242</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2006			
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED
Cash	\$218,695	0.4%	100%
PRIT Cash Fund	101,397	0.2%	100%
PRIT Core Fund	<u>58,690,079</u>	<u>99.5%</u>	100%
Grand Total	<u>\$59,010,172</u>	<u>100.0%</u>	

For the year ending December 31, 2006, the rate of return for the investments of the Saugus Retirement System was 16.82%. For the five-year period ending December 31, 2006, the rate of return for the investments of the Saugus Retirement System averaged 11.58%. For the twenty-two year period ending December 31, 2006, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Saugus Retirement System was 10.99%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Saugus Retirement Board has no supplementary investment regulations on file with PERAC since all of its funds are invested in the PRIT Fund.

NOTES TO FINANCIAL STATEMENTS

NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Saugus Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

ADMINISTRATION

There are 106 contributory Retirement Systems for public employees in Massachusetts. Each system is governed by a retirement board, and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements, and a uniform accounting and funds structure for all systems.

PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal, or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 3 classes of membership in the Retirement System:

Group 1:

General employees, including clerical, administrative, technical, and all other employees not otherwise classified.

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

A member is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year average salary. For veterans as defined in G.L. c. 32, s. 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

- Salary is defined as gross regular compensation.
- Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last three years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age, but the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

DEFERRED VESTED BENEFIT

A participant who has completed 10 or more years of creditable service is eligible for a deferred vested retirement benefit. Elected officials and others who were hired prior to 1978 may be vested after 6 years in accordance with G.L. c. 32, s. 10.

The participant's accrued benefit is payable commencing at age 55, or the completion of 20 years, or may be deferred until later at the participant's option.

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. Employees who first become members on or after January 1, 1984, may receive only limited interest on their contributions if they voluntarily terminate their service. Those who leave service with less than 5 years receive no interest; those who leave service with greater than 5 but less than 10 years receive 50% of the interest credited.

NOTES TO FINANCIAL STATEMENTS (Continued)

DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

ORDINARY DISABILITY

Eligibility: Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, s. 6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching "maximum age".

Retirement Allowance: Equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member's final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

ACCIDENTAL DISABILITY

Eligibility: Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$648.48 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member's retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution.

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DEATH

Eligibility: Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$312 per year, per child, payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries resulting in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death.

In addition, an eligible family member may receive a one time payment of \$100,000.00 from the State Retirement Board.

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000.

DEATH IN ACTIVE SERVICE

Allowance: An immediate allowance equal to that which would have been payable had the member retired and elected Option C on the day before his or her death. For death occurring prior to the member's superannuation retirement age, the age 55 benefit rate is used. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child, and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

NOTES TO FINANCIAL STATEMENTS (Continued)

COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. The first \$12,000 of a retiree's total allowance is subject to a cost-of-living adjustment. The total Cost-of-Living adjustment for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

Option A: Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

Option B: A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who remains unmarried for a member whose retirement becomes effective on or after February 2, 1992, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up") based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

NOTES TO FINANCIAL STATEMENTS (Continued)

ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Saugus Retirement System has not submitted any supplementary membership regulations, to PERAC for approval.

10/23/02

The Board adopted Supplementary Travel Regulations under the provisions of G.L. c.7, § 50 and G.L. c.32, § 21(4), consistent with 840 CMR 2.00 et seq. (Regulation available upon written request).

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five person Board of Retirement consisting of the Town Accountant who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member: Joan C. Regan

Appointed Member:	Eugene F. Decareau	Term:	Until a successor is named
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Elected Member:	William E. Cross III	Term Expires:	12/05/07
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Elected Member:	Henry E. Mackenzie	Term Expires:	9/30/08
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Appointed Member:	Doreen L. Dibari	Term Expires:	1/6/09
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The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:)	Coverage provided to a limit of
Ex-officio Member:)	\$50,000,000 under a master MACRS
Elected Member:)	sponsored policy issued through
Appointed Member:)	Travelers Casualty and Surety
		Company of America, separate
Staff Employee:)	Fidelity coverage pertaining to
		ERISA/Crime to a limit of \$1,000,000
		issued through same, deductible
		\$10,000

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by the Public Employee Retirement Administration Commission as of January 1, 2005.

The actuarial liability for active members was	\$30,463,771
The actuarial liability for vested terminated members was	312,872
The actuarial liability for non-vested terminated members was	174,227
The actuarial liability for retired members was	<u>45,858,357</u>
The total actuarial liability was	76,809,227
System assets as of that date were	<u>47,649,125</u>
The unfunded actuarial liability was	<u>\$29,160,102</u>
 The ratio of system's assets to total actuarial liability was	 62.0%
As of that date the total covered employee payroll was	\$12,199,702

The normal cost for employees on that date was 8.07% of payroll

The normal cost for the employer was 6.61% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.25% per annum

Rate of Salary Increase: 5.00% per annum

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2005

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2005	\$47,649,125	\$76,809,227	\$29,160,102	62.0%	\$12,199,702	239.0%
1/1/2003	\$40,088,240	\$70,781,250	\$30,693,010	56.6%	\$12,166,305	252.3%
1/1/2001	\$39,634,647	\$61,002,498	\$21,367,851	65.0%	\$11,413,134	187.2%
1/1/1999	\$31,867,797	\$50,221,159	\$18,353,362	63.5%	\$10,375,985	176.9%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Retirement in Past Years										
Superannuation	4	7	10	9	5	38	1	11	8	7
Ordinary Disability	0	0	0	0	0	0	0	0	1	0
Accidental Disability	0	0	1	4	2	1	0	3	0	0
Total Retirements	4	7	11	13	7	39	1	14	9	7
Total Retirees, Beneficiaries and Survivors	264	265	269	277	286	317	293	311	305	301
Total Active Members	320	340	340	336	343	339	351	330	372	349
Pension Payments										
Superannuation	\$1,550,113	\$1,570,464	\$1,594,311	\$1,801,146	\$1,904,003	\$2,163,480	\$2,618,126	2,765,455	2,902,970	\$3,050,305
Survivor/Beneficiary Payments	115,389	106,968	117,231	112,461	121,075	132,744	129,812	135,235	152,190	154,747
Ordinary Disability	57,082	57,082	69,496	59,658	52,372	44,320	33,663	34,672	54,058	57,304
Accidental Disability	700,205	666,440	671,275	734,603	767,856	807,690	890,070	919,809	998,825	1,132,159
Other	<u>526,772</u>	<u>412,957</u>	<u>482,999</u>	<u>493,565</u>	<u>517,888</u>	<u>558,971</u>	<u>566,789</u>	<u>586,799</u>	<u>582,884</u>	<u>597,163</u>
Total Payments for Year	<u>\$2,949,561</u>	<u>\$2,813,911</u>	<u>\$2,935,312</u>	<u>\$3,201,433</u>	<u>\$3,363,194</u>	<u>\$3,707,205</u>	<u>\$4,238,460</u>	<u>\$4,441,970</u>	<u>\$4,690,927</u>	<u>\$4,991,677</u>

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